

MT. MORRIS CONSOLIDATED SCHOOLS

MT. MORRIS, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2006

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*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 23, 2006

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Mt. Morris Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mt. Morris Consolidated Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 23, 2006 on our consideration of the Mt. Morris Consolidated Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mt. Morris Consolidated Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf P.C.*  
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mt. Morris Consolidated Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**District Wide Financial Statements:** (Continued)

These two statements report the Mt. Morris Consolidated Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005.

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$10,897,723	\$7,996,599
Non-Current Assets	<u>1,921,817</u>	<u>2,010,951</u>
<u>TOTAL ASSETS</u>	<u>\$12,819,540</u>	<u>\$10,007,550</u>
<u>LIABILITIES</u>		
Current Liabilities	\$5,072,349	\$3,244,484
Long-Term Liabilities	<u>2,570,944</u>	<u>1,343,088</u>
Total Liabilities	\$7,643,293	\$4,587,572
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	1,551,305	1,652,666
Restricted - Debt Retirement	28,996	0
Unrestricted	<u>3,595,946</u>	<u>3,767,312</u>
Total Net Assets	<u>\$5,176,247</u>	<u>\$5,419,978</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$12,819,540</u>	<u>\$10,007,550</u>

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<b><u>REVENUES</u></b>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,629,010	\$1,550,676
State of Michigan Unrestricted Foundation Aid	21,767,482	21,121,734
Other General Revenues	<u>436,581</u>	<u>125,400</u>
Total General Revenues	\$23,833,073	\$22,797,810
<u>Operating Grants:</u>		
Federal	2,973,696	2,484,381
State of Michigan	2,459,172	2,568,894
Other Grants	<u>127,071</u>	<u>188,805</u>
Total Operating Grants	\$5,559,939	\$5,242,080
<u>Charges for Services:</u>		
Food Service	276,473	273,526
Athletics	47,844	39,087
Other Charges for Services	<u>359,022</u>	<u>554,877</u>
Total Charges for Services	<u>\$683,339</u>	<u>\$867,490</u>
Total Revenues	\$30,076,351	\$28,907,380
<b><u>EXPENSES</u></b>		
Instruction & Instructional Support	17,139,141	16,791,607
Support Services	11,610,694	11,380,739
Community Services	71,211	50,736
Food Service	922,651	883,632
Athletics	425,120	396,960
Non-Educational Activities	19,285	23,594
Interest - Long-Term Obligations	21,902	0
Depreciation	<u>110,078</u>	<u>106,054</u>
Total Expenses	<u>\$30,320,082</u>	<u>\$29,633,322</u>
<b><u>(DECREASE) IN NET ASSETS</u></b>	(\$243,731)	(\$725,942)
<b><u>BEGINNING NET ASSETS</u></b>	<u>5,419,978</u>	<u>6,145,920</u>
<b><u>ENDING NET ASSETS</u></b>	<u><u>\$5,176,247</u></u>	<u><u>\$5,419,978</u></u>

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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## **GOVERNMENT- WIDE FINANCIAL ANALYSIS**

### Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets decreased by \$243,731 to a total of \$5,176,247. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$101,361 during the year due to depreciation exceeding purchases of new capital assets and principal payments on related debt. The district's Unrestricted Net Assets decreased by \$171,366 during the year and the restricted portion of the net assets increased by \$28,996. The unrestricted Net Assets may be used to fund the educational services provided to students. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects.

### Analysis of Results of Operations

The district's overall expenditures exceeded its revenues for the year by \$243,731. The total revenues increased by \$1,168,971, or 4% over last years amounts. The major changes were increases in state aid and federal grant funding. Expenditures increased by \$686,760, or 2% over last year. The major changes were increases in depreciation, wages, and fringe benefits.

## **FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

### Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

#### General Fund

The district's general fund is the chief operating fund of the district. The general fund's unreserved fund balance decreased by \$187,185 during the year with the decrease coming primarily in cash. Several sources contributed to increased revenues of \$1,055,341 for the year. For the first time in three years, the district's State Aid foundation allowance increased to \$6,875 per pupil. Additionally, district enrollment increased by 34 students. As a result, \$834,350 in additional State Aid was received for the 2005-06 school year. Another contributing factor to the revenue increase is the level of state and federal grant funding. The socioeconomic status of the community continues to qualify the district for added funding.

Expenditures and other financing uses increased by \$1,007,073 primarily from increases in wages, retirement costs, and health insurance premiums totaling over \$398,000. In addition, the maintenance and transportation departments have recognized over \$170,000 in additional utility and fuel costs. To address the severe need of buildings and grounds, the first Sinking Fund in many years was passed. As a result, architectural services accumulated to \$124,000. With a strong focus on technology in the district, over \$175,000 was invested in computer labs and instructional technology. Finally, to ensure a secure and safe environment for staff and students, the district invested in more than \$140,000 in security technology and equipment.

The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Mt. Morris Consolidated Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

3. Student Enrollment:

The District's student enrollment for the fall count of 2005-2006 was 3,466; an increase of 34 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$1,675,809. An increase of \$125,133 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original &amp; Final Budget %</u>	<u>Variance Actual &amp; Final Budget %</u>
Revenue	\$28,142,760	\$29,310,273	\$29,053,494	4.15	0.88
Expenditures	29,816,601	30,163,507	29,240,679	1.16	3.06
<u><b>TOTAL</b></u>	<u>(\$1,673,841)</u>	<u>(\$853,234)</u>	<u>(\$187,185)</u>		

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Mt. Morris Consolidated Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year.

- Original vs. Final Budgets
  - Revenues – Several significant items affect the Original vs. Final revenues. At the time of original budget adoption, enrollment figures and state aid funding subject to legislative action are estimates only. With the official student count and foundation allowance, the budget is amended to reflect accurate revenues. Grant allocations received throughout the year also cause a change in budgeted revenues.



MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**ANALYSIS OF BUDGETS: (Continued)**

- Original vs. Final Budgets (Continued)
  - Expenditures – Several significant items affect the Original vs. Final expenditures. At the time of original budget adoption, staffing changes based on retirement and changes in enrollment are estimates. As actual wage and fringe benefit costs are determined, the budget is amended. In addition, as grant allocations are received, the budget is amended to reflect the anticipated expenditure of those funds. During the course of the year, the board approved additional expenditures of textbooks and other necessary purchases which required expense budget amendments.
- Final Budget vs. Actual Results
  - Revenues – Three factors having a significant impact on differences between the Final vs. Actual budget include the receipt of unknown revenues, unexpended grant funds, and the timing of the building trade house sale. State Aid funding for students residing in another district is adjusted based on the resident district's foundation allowance. Upon finalization of the final pupil accounting audit, the district recognized \$289,485 in funding for these students. Year-end unexpended grant funds totaling more than \$250,186 will be deferred to the 2006-07 budget year. The home built by students participating in the 2005-06 building trades program was not sold prior to June 30, 2006. The anticipated sales revenue from this home will be budgeted and recorded in the year of sale.
  - Expenditures – Several factors had a major impact on the difference between the Final vs. Actual budget. The first budget variance stems from grant funds of \$365,963 that were not spent prior to June 30, 2006. These expenditures will be budgeted and recorded in the 2006-07 school year. A second variance is due to the transfer of \$150,630 to an inventory account for unsold building trade house expenses. Thirdly, in order to spread the burden of major purchases, the district allows remaining discretionary monies to be combined with future year allocations. As of June 30, 2006, \$162,333 in unspent discretionary funds remained. During the 2006-07 budget amendment, a portion of these funds will be added to the budget for expenditure. A fourth variance stems from the delay in completing spring maintenance projects. Projects delayed until July, 2007 totaled \$61,157. These costs will be reflected in the 2006-07 budget amendment.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
Bonds Payable	\$358,285	\$1,800,000	\$27,145	\$2,131,140
Sick & Terminal Leave Pay	1,011,948	6,287	0	1,018,235
<u>Total Long-Term Obligations</u>	<u>\$1,370,233</u>	<u>\$1,806,287</u>	<u>\$27,145</u>	<u>\$3,149,375</u>

2006 Capital Improvement Bonds, original issue \$1,800,000 were issued for the construction and repair of school buildings and ground. The bonds, dated June 1, 2006, are due in annual installments of \$550,000 to \$650,000 through May 1, 2009, with interest rates ranging from 3.75% to 3.97%. The balance as of June 30, 2006 was \$1,800,000.

MT. MORRIS CONSOLIDATED SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

B. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$89,134 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deductions	Balance 6-30-06
Capital Assets	\$9,135,709	\$209,428	\$62,885	\$9,282,252
Less: Accumulated Depreciation	(7,124,758)	(298,562)	(62,885)	(7,360,435)
<u>Net Investment Capital Outlay</u>	<u>\$2,010,951</u>	<u>(\$89,134)</u>	<u>\$0</u>	<u>\$1,921,817</u>

Significant additions was the purchase of a bus, the repair of a building roof, and the replacement of a pool boiler.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

\* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,095 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

\* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06.

\* The Mt. Morris Consolidated Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$29,545,900
<u>EXPENDITURES</u>	<u>30,272,289</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$726,389)</u>

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Mt. Morris Consolidated Schools.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$3,056,826
Investments	2,935,132
Accounts Receivable	14,492
Due from Other Governmental Units	4,678,959
Inventory	144,374
Prepaid Expenses	67,940
Total Current Assets	<u>\$10,897,723</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	9,282,252
Less: Accumulated Depreciation	<u>(7,360,435)</u>
Total Noncurrent Assets	<u>\$1,921,817</u>
<u>TOTAL ASSETS</u>	\$12,819,540
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	41,663
State Aid Anticipation Note Payable	2,575,625
Due to Other Governmental Units	23,630
Accrued Expenses	697,952
Salaries Payable	1,050,990
Deferred Revenue	104,058
Current Portion of Long-Term Obligations	578,431
Total Current Liabilities	<u>\$5,072,349</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>2,570,944</u>
<u>TOTAL LIABILITIES</u>	\$7,643,293
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,551,305
Restricted - Debt Retirement	28,996
Unrestricted	<u>3,595,946</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$5,176,247</u></u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue &amp; Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$17,139,141	\$275,347	\$4,700,562	(\$12,163,232)
Support Services	11,610,694	39,192	222,534	(11,348,968)
Community Services	71,211	28,982	0	(42,229)
Food Service	922,651	276,473	636,843	(9,335)
Athletics	425,120	47,844	0	(377,276)
Non-Education Activities	19,285	15,501	0	(3,784)
Interest - Long-Term Obligations	21,902	0	0	(21,902)
Depreciation - Unallocated	110,078	0	0	(110,078)
<u>TOTALS</u>	<u>\$30,320,082</u>	<u>\$683,339</u>	<u>\$5,559,939</u>	<u>(\$24,076,804)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,629,010
State Aid				21,767,482
Grants and Contributions Not Restricted to				
Specific Programs				16,612
Investment Earnings				148,740
Miscellaneous				271,229
Total General Revenues and Transfers				<u>\$23,833,073</u>
Change in Net Assets				(\$243,731)
Net Assets - Beginning				<u>5,419,978</u>
<u>Net Assets - Ending</u>				<u>\$5,176,247</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$1,107,970	\$1,760,628	\$188,228	\$3,056,826
Investments	2,935,132	0	0	2,935,132
Accounts Receivable	14,384	0	108	14,492
Due from Other Governmental Units	4,672,155	0	6,804	4,678,959
Inventory	144,286	0	88	144,374
Prepaid Expenses	65,240	0	2,700	67,940
<u>TOTAL ASSETS</u>	<u>\$8,939,167</u>	<u>\$1,760,628</u>	<u>\$197,928</u>	<u>\$10,897,723</u>
<u>LIABILITIES</u>				
Accounts Payable	\$41,533	\$0	\$130	\$41,663
State Aid Anticipation Note Payable	2,575,625	0	0	2,575,625
Due from Other Governmental Units	23,630	0	0	23,630
Accrued Expenses	687,824	0	463	688,287
Salaries Payable	1,049,062	0	1,928	1,050,990
Deferred Revenue	104,058	0	0	104,058
Total Liabilities	\$4,481,732	\$0	\$2,521	\$4,484,253
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	144,286	0	88	144,374
Prepaid Expenses	65,240	0	2,700	67,940
Capital Projects	0	1,760,628	16,830	1,777,458
Debt Retirement	0	0	28,996	28,996
Unreserved:				
Undesignated, Reported In:				
General Fund	4,247,909	0	0	4,247,909
School Service Funds	0	0	146,793	146,793
Total Fund Balances	<u>\$4,457,435</u>	<u>\$1,760,628</u>	<u>\$195,407</u>	<u>\$6,413,470</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$8,939,167</u>	<u>\$1,760,628</u>	<u>\$197,928</u>	<u>\$10,897,723</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2006

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Total Governmental Fund Balances:		\$6,413,470
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$9,282,252 and the accumulated depreciation is \$7,360,435		1,921,817
Accrued Interest on Long-Term Debt		(9,665)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$2,131,140	
Compensated Absences Payable	1,018,235	
Total Long-Term Liabilities		<u>(3,149,375)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$5,176,247</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>				
Local Sources	\$2,057,805	\$6,814	\$339,818	\$2,404,437
State Sources	24,133,095	0	93,559	24,226,654
Federal Sources	2,391,030	0	582,666	2,973,696
Total Revenues	<u>\$28,581,930</u>	<u>\$6,814</u>	<u>\$1,016,043</u>	<u>\$29,604,787</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	17,132,854	0	0	17,132,854
Student Services	1,812,268	0	0	1,812,268
Instructional Support	1,296,500	0	0	1,296,500
General Administration	657,123	0	0	657,123
School Administration	2,332,465	0	0	2,332,465
Business Administration	466,742	0	0	466,742
Operation & Maintenance of Plant	2,920,549	0	0	2,920,549
Transportation	1,139,804	0	0	1,139,804
Support Services - Other	729,493	0	0	729,493
Community Services	71,211	0	0	71,211
Special Revenue	0	0	1,357,034	1,357,034
Debt Retirement	0	0	39,382	39,382
Capital Projects	0	0	360	360
Total Expenditures	<u>\$28,559,009</u>	<u>\$0</u>	<u>\$1,396,776</u>	<u>\$29,955,785</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$22,921	\$6,814	(\$380,733)	(\$350,998)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from (to) Other Funds	(395,314)	(46,186)	441,500	0
Bond Proceeds	0	1,800,000	0	1,800,000
Other Transfers	185,208	0	0	185,208
Total Other Financing Sources (Uses)	<u>(\$210,106)</u>	<u>\$1,753,814</u>	<u>\$441,500</u>	<u>\$1,985,208</u>
Net Change in Fund Balance	<u>(\$187,185)</u>	<u>\$1,760,628</u>	<u>\$60,767</u>	<u>\$1,634,210</u>
<u>FUND BALANCE - BEGINNING</u>	<u>4,644,620</u>	<u>0</u>	<u>134,640</u>	<u>4,779,260</u>
<u>FUND BALANCE - ENDING</u>	<u>\$4,457,435</u>	<u>\$1,760,628</u>	<u>\$195,407</u>	<u>\$6,413,470</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006

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Total net change in fund balances - governmental funds	\$1,634,210
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(89,134)
Bond Proceeds	(1,800,000)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	27,145
Change in accrued interest on long-term liabilities	(9,665)
Increase in accrued compensated absences	<u>(6,287)</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$243,731)</u></u>



MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
AS OF JUNE 30, 2006

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	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$201,610</u>
<u>TOTAL ASSETS</u>	<u><u>\$201,610</u></u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$201,610</u>
<u>TOTAL LIABILITIES</u>	<u><u>\$201,610</u></u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$1,994,227	\$2,077,894	\$2,057,805	(\$20,089)
State Sources	23,609,235	23,941,529	24,133,095	191,566
Federal Sources	2,124,843	2,639,165	2,391,030	(248,135)
Total Revenues	\$27,728,305	\$28,658,588	\$28,581,930	(\$76,658)
<u>EXPENDITURES</u>				
Current:				
Instruction	17,274,396	17,378,641	17,132,854	245,787
Student Services	2,083,644	1,893,678	1,812,268	81,410
Instructional Support	1,559,433	1,526,946	1,296,500	230,446
General Administration	608,500	680,278	657,123	23,155
School Administration	2,434,456	2,375,135	2,332,465	42,670
Business Administration	408,482	477,601	466,742	10,859
Operation & Maintenance of Plant	2,907,480	3,036,247	2,920,549	115,698
Transportation	1,147,600	1,193,182	1,139,804	53,378
Support Services - Other	756,304	754,786	729,493	25,293
Community Services	96,600	94,100	71,211	22,889
Total Expenditures	\$29,276,895	\$29,410,594	\$28,559,009	\$851,585
Excess of Revenues Over Expenditures	(\$1,548,590)	(\$752,006)	\$22,921	\$774,927
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(125,251)</u>	<u>(101,228)</u>	<u>(210,106)</u>	<u>(108,878)</u>
Net Change in Fund Balance	(\$1,673,841)	(\$853,234)	(\$187,185)	\$666,049
<u>FUND BALANCE - BEGINNING</u>			<u>4,644,620</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,457,435</u>	

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mt. Morris Consolidated Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Non-Educational Funds.

Debt Retirement Fund

The debt retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The capital projects fund is used to account for the acquisition and construction of major facilities by the school district.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$10,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted Average Maturity (Years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment Pool - MICMS	\$ 3,448	0.0027	AAAm	0.12%
MILAF External Investment Pool - MIMAX	2,931,684	0.0027	AAAm	99.88%
Total fair value	<u>\$ 2,935,132</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.



MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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4) DEPOSITS AND INVESTMENTS (Continued)

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$2,018,073 of the District's bank balance of \$4,132,206 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$201,610	\$ 3,258,436
Investments	<u>2,935,132</u>
<u>TOTAL</u>	<u>\$ 6,193,568</u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 201,610
Cash – District Wide	3,056,826
Investments – District Wide	<u>2,935,132</u>
<u>TOTAL</u>	<u>\$ 6,193,568</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,389,842
Federal Grants	286,765
Other Grant Programs & Fees	<u>2,352</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 4,678,959</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had estimated claims of \$19,126 in conjunction with the program.

8) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$7,052,635	\$14,395	\$0	\$7,067,030
Land Improvements	376,439	31,833	0	408,272
Equipment and Furniture	491,756	25,211	0	516,967
Vehicles	1,214,879	137,989	62,885	1,289,983
Totals at Historical Cost	\$9,135,709	\$209,428	\$62,885	\$9,282,252
Less: Accumulated Depreciation				
Buildings and Improvements	(5,544,750)	(110,078)	0	(5,654,828)
Land Improvements	(295,762)	(10,022)	0	(305,784)
Equipment and Furniture	(427,313)	(6,835)	0	(434,148)
Vehicles	(856,933)	(171,627)	(62,885)	(965,675)
Total Accumulated Depreciation	(\$7,124,758)	(\$298,562)	(\$62,885)	(\$7,360,435)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,010,951</u>	<u>(\$89,134)</u>	<u>\$0</u>	<u>\$1,921,817</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 178,462
Athletics	10,022
Unallocated	110,078
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 298,562</u>

9) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$152,614 and the School District received a dividend refund of \$680.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

10) SHORT-TERM DEBT

The District borrowed \$2,500,000 at 3.3% interest per annum on September 16, 2005, from the State Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance including interest as of June 30, 2006 was \$2,575,625. The note matures August 18, 2006.

	Balance July 1, 2005	Additons	Deductions	Balance June 30, 2006
State Aid	<u>\$1,400,000</u>	<u>\$2,500,000</u>	<u>\$1,400,000</u>	<u>\$2,500,000</u>

11) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Mt. Morris Consolidated Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$560,813 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$331,140.

B) 2006 Capital Improvement Bonds

2006 Capital Improvement Bonds, original issue \$1,800,000 were issued for the construction and repair of school buildings and grounds. The bonds, dated June 1, 2006, are due in annual installments of \$550,000 to \$650,000 through May 1, 2009, with interest rates ranging from 3.75% to 3.97%. The balance as of June 30, 2006 was \$1,800,000.

C) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2007	\$578,431	\$74,735	\$653,166
June 30, 2008	731,077	103,733	834,810
June 30, 2009	681,211	33,977	715,188
June 30, 2010	32,696	6,686	39,382
June 30, 2011	34,253	5,129	39,382
June 30, 2012-2013	<u>73,472</u>	<u>5,288</u>	<u>78,760</u>
<u>TOTAL</u>	<u>\$2,131,140</u>	<u>\$229,548</u>	<u>\$2,360,688</u>

The payment dates of sick and terminal leave days payable is undeterminable. The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$12,237.

D) Changes in General Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2006.

	Bsalance July 1, 2005	Additions	Deductions	Bsalance June 30, 2006	Amount Due in One Year
<u>Governmental Activities:</u>					
Bonds Payable	\$358,285	\$1,800,000	\$27,145	\$2,131,140	\$578,431
Sick & Terminal Leave Pay	<u>1,011,948</u>	<u>6,287</u>	<u>0</u>	<u>1,018,235</u>	<u>0</u>
<u>Total Governmental Activities</u>	<u>\$1,370,233</u>	<u>\$1,806,287</u>	<u>\$27,145</u>	<u>\$3,149,375</u>	<u>\$578,431</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

12) OPERATING LEASES

- A. The District leases various copy machines. The lease requires monthly payments of \$7,615 and expires on June 30, 2009.
- B. The District entered into a drivers education service agreement with Genesee Driving School, Inc. and Safeway Driving School to provide driver education courses to students of the District for a three year period. Each service provider will receive \$6,250 in 2006-2007 year and \$5,000 in the 2007-2008 year.

The future minimum payments are as follows:

	Copy Machine	Drivers Education	Total
2007	\$91,380	\$12,500	\$103,880
2008	91,380	10,000	101,380
2009	91,380	0	0
<u>TOTAL</u>	<u>\$274,140</u>	<u>\$22,500</u>	<u>\$205,260</u>

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

<b>TRANSFERS FROM</b>			
TRANSFERS TO	General Fund	Capital Projects	Total
Athletics Fund	\$369,283	\$0	\$369,283
Non-Educational Fund	13,400	0	13,400
Food Service Fund	12,631	0	12,631
Cost of Issuance Fund	0	17,190	17,190
Debt Retirement	0	28,996	28,996
<u>TOTAL</u>	<u>\$395,314</u>	<u>\$46,186</u>	<u>\$441,500</u>

The transfers from general fund were made to subsidize the cost of services for athletics, food service and the non-educational fund. The capital projects transfers were made for the purpose of appropriately recording the bond issuance expense and debt retirement subsidy in accordance with bond provisions.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

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14) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$2,634,051, \$2,411,587 and \$2,185,469, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which are the Comprehensive School Reform and Nutrition Cluster grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District has approved borrowing \$2,300,000 at a interest rate of 3.98% from the Citizens Bank to meet cash flow needs for the 2006-2007 fiscal year. The bonds will be issued September 27, 2006 with a maturity date August 22, 2007.

OTHER SUPPLEMENTAL  
INFORMATION

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
OTHER GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2006

	Special Revenue Funds	Capital Projects Cost of Issuance Fund	Durant Debt Fund	Debt Fund	Total
<u>ASSETS</u>					
Cash and Cash Equivalents	\$142,402	\$16,830	\$0	\$28,996	\$188,228
Accounts Receivable	108	0	0	0	108
Due From Other Governmental Units	6,804	0	0	0	6,804
Inventory	88	0	0	0	88
Prepaid Expenses	2,700	0	0	0	2,700
<u>TOTAL ASSETS</u>	<u>\$152,102</u>	<u>\$16,830</u>	<u>\$0</u>	<u>\$28,996</u>	<u>\$197,928</u>
<u>LIABILITIES</u>					
Accounts Payable	\$130	\$0	\$0	\$0	\$130
Accrued Expenses	463	0	0	0	463
Salaries Payable	1,928	0	0	0	1,928
Total Liabilities	\$2,521	\$0	\$0	\$0	\$2,521
<u>FUND EQUITY</u>					
Fund Balance - Reserved for Inventory	88	0	0	0	88
Fund Balance - Reserved for Prepaid Expense	2,700	0	0	0	2,700
Fund Balance - Reserved for Capital Outlay	0	16,830	0	0	16,830
Fund Balance - Reserved for Debt Retirement	0	0	0	28,996	28,996
Fund Balance - Unreserved and Undesignated	146,793	0	0	0	146,793
Total Fund Equity	\$149,581	\$16,830	\$0	\$28,996	\$195,407
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$152,102</u>	<u>\$16,830</u>	<u>\$0</u>	<u>\$28,996</u>	<u>\$197,928</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Capital Projects Cost of Issuance Fund	Durant Debt Fund	Debt Fund	Total
<u>REVENUES</u>					
Local Sources	\$339,818	\$0	\$0	\$0	\$339,818
State Sources	54,177	0	39,382	0	93,559
Federal Sources	582,666	0	0	0	582,666
Total Revenues	<u>\$976,661</u>	<u>\$0</u>	<u>\$39,382</u>	<u>\$0</u>	<u>\$1,016,043</u>
<u>OTHER FINANCING SOURCES</u>					
Transfers from General Fund	395,314	17,190	0	28,996	441,500
Total Revenues and Other F Financing Sources	<u>\$1,371,975</u>	<u>\$17,190</u>	<u>\$39,382</u>	<u>\$28,996</u>	<u>\$1,457,543</u>
<u>EXPENDITURES</u>					
Special Revenue Funds	1,357,034	0	0	0	1,357,034
Debt Retirement					
Principal	0	0	27,145	0	27,145
Interest	0	0	12,237	0	12,237
Capital Outlay	0	360	0	0	360
Total Expenditures	<u>\$1,357,034</u>	<u>\$360</u>	<u>\$39,382</u>	<u>\$0</u>	<u>\$1,396,776</u>
<u>EXCESS REVENUES AND OTHER OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$14,941</u>	<u>\$16,830</u>	<u>\$0</u>	<u>\$28,996</u>	<u>\$60,767</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$134,640</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$134,640</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$149,581</u>	<u>\$16,830</u>	<u>\$0</u>	<u>\$28,996</u>	<u>\$195,407</u>



MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING BALANCE SHEET  
AS OF JUNE 30, 2006

	<u>Food Service</u>	<u>Athletic Activities</u>	<u>Non- Educational Activities</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$91,617	\$40,738	\$10,047	\$142,402
Accounts Receivable	0	0	108	108
Due From Other Governmental Units	6,804	0	0	6,804
Inventory	88	0	0	88
Prepaid Expenses	2,700	0	0	2,700
<u>TOTAL ASSETS</u>	<u>\$101,209</u>	<u>\$40,738</u>	<u>\$10,155</u>	<u>\$152,102</u>
<u>LIABILITIES</u>				
Accounts Payable	\$0	\$0	\$130	\$130
Accrued Expenses	245	218	0	463
Salaries Payable	1,021	907	0	1,928
Total Liabilities	\$1,266	\$1,125	\$130	\$2,521
<u>FUND EQUITY</u>				
Fund Balance - Reserved for Inventory	88	0	0	88
Fund Balance - Unreserved and Undesignated	97,155	39,613	10,025	146,793
Total Fund Equity	\$99,943	\$39,613	\$10,025	\$149,581
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$101,209</u>	<u>\$40,738</u>	<u>\$10,155</u>	<u>\$152,102</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
SPECIAL REVENUE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2006

	Food Service	Athletic Activities	Non- Educational Activities	Totals
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$276,473	\$0	\$0	\$276,473
Athletic Activities	0	47,844	0	47,844
Other Local Revenues	0	0	15,501	15,501
Total Local Sources	\$276,473	\$47,844	\$15,501	\$339,818
<u>State Sources</u>				
State Reimbursements	54,177	0	0	54,177
<u>Federal Sources</u>				
Federal Reimbursements	582,666	0	0	582,666
Total Revenues	\$913,316	\$47,844	\$15,501	\$976,661
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	12,631	369,283	13,400	395,314
Total Revenues and Other Financing Sources	\$925,947	\$417,127	\$28,901	\$1,371,975
<u>EXPENDITURES</u>				
Salaries - Professional	0	41,671	0	41,671
Salaries - Non-Professional	275,301	189,888	5,264	470,453
Insurances	86,188	18,392	0	104,580
Fica, Retirement, Etc.	65,218	52,671	575	118,464
Purchased Services	21,722	31,409	9,445	62,576
Supplies and Materials	467,333	31,836	1,636	500,805
Capital Outlay	1,168	0	2,365	3,533
Other	5,721	49,231	0	54,952
Total Expenditures	\$922,651	\$415,098	\$19,285	\$1,357,034
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	\$3,296	\$2,029	\$9,616	\$14,941
<u>FUND BALANCE - BEGINNING OF YEAR</u>	\$96,647	\$37,584	\$409	\$134,640
<u>FUND BALANCE - END OF YEAR</u>	\$99,943	\$39,613	\$10,025	\$149,581

INDIVIDUAL FUND SCHEDULES OF  
REVENUES, EXPENDITURES AND  
OTHER FINANCING USES

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES  
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROMLocal Sources

Current Taxes	\$1,629,010
Earnings on Investments and Deposits	141,926
Tuition and Adult Education	37,857
Medicaid School Based Services	58,921
Bridges Grant	60,839
Latchkey	28,982
Rentals	15,369
Other Local Revenues	84,901
Total Revenues from Local Sources	<u>\$2,057,805</u>

State Sources

State Aid - Membership - Sec. 20	21,767,482
Court Placed Children	105,089
Michigan School Readiness	455,400
Special Ed Headlee	861,982
Vocational Education Added Cost - Sec. 61a.1	55,584
Durant	56,081
At-Risk Pupils - Sec. 31A	747,003
Adult Education - Sec. 107.1	84,474
Total Revenues from State Sources	<u>\$24,133,095</u>

Federal Sources

Title I	953,959
Comprehensive School Reform	311,852
Title V	5,292
Technology Literacy Challenge	11,245
Indian Education	105,543
Improving Teacher Quality	131,355
Homeland Security	6,600
IDEA Flowthrough	748,450
Medicaid	16,727
Fresh Fruit and Vegetable Program	26,473
Other Grants from ISD	15,162
Preschool Incentive	34,568
Vocational Education	23,804
Total Revenues from Federal Sources	<u>\$2,391,030</u>
Total Revenues	<u>\$28,581,930</u>

OTHER FINANCING SOURCES

County Special Education Tax	237,490
Transfers from Other Governmental Units	7,311
Other	226,763
Total Other Financing Sources	<u>\$471,564</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES

\$29,053,494

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSCentral Elementary

Salaries - Professional	\$1,534,133
Salaries - Non-Professional	52,523
Insurances	409,188
Fica, Retirement, Etc.	375,519
Purchased Services	83,228
Supplies and Materials	32,470
Capital Outlay	33,712
Other	3,036
Total Central Elementary	<u>\$2,523,809</u>

Montague Elementary

Salaries - Professional	572,468
Salaries - Non-Professional	18,537
Insurances	177,772
Fica, Retirement, Etc.	140,406
Purchased Services	7,996
Supplies and Materials	27,686
Capital Outlay	2,334
Other	1,790
Total Montague Elementary	<u>\$948,989</u>

Moore Elementary

Salaries - Professional	684,586
Salaries - Non-Professional	14,987
Insurances	185,911
Fica, Retirement, Etc.	163,944
Purchased Services	7,996
Supplies and Materials	19,187
Capital Outlay	3,266
Other	4,391
Total Moore Elementary	<u>\$1,084,268</u>

Pinehurst Elementary

Salaries - Professional	618,763
Salaries - Non-Professional	25,501
Insurances	185,930
Fica, Retirement, Etc.	152,581
Purchased Services	79,276
Supplies and Materials	29,425
Capital Outlay	1,338
Other	737
Total Pinehurst Elementary	<u>\$1,093,551</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)

BASIC PROGRAMS (Continued)

Junior High

Salaries - Professional	\$1,112,584
Salaries - Non-Professional	20,879
Insurances	297,641
Fica, Retirement, Etc.	269,131
Purchased Services	35,893
Supplies and Materials	21,482
Capital Outlay	26,313
Other	4,462
Total Junior High	<u>\$1,788,385</u>

High School

Salaries - Professional	2,700,507
Salaries - Non-Professional	190,181
Insurances	580,858
Fica, Retirement, Etc.	681,004
Purchased Services	458,392
Supplies and Materials	144,108
Capital Outlay	108,472
Other	4,740
Total High School	<u>\$4,868,262</u>

Preschool

Salaries - Professional	216,404
Salaries - Non-Professional	61,938
Insurances	49,331
Fica, Retirement, Etc.	66,063
Supplies and Materials	10,516
Other	47
Total Preschool	<u>\$404,299</u>

Summer School - High School

Salaries - Professional	7,335
Fica, Retirement, Etc.	1,652
Total Summer School - High School	<u>\$8,987</u>

Total Basic Programs

\$12,720,550

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	\$1,402,204
Salaries - Non-Professional	328,182
Insurances	307,755
Fica, Retirement, Etc.	408,049
Purchased Services	532
Supplies and Materials	17,114
Other	1,122
Total Special Education	<u>\$2,464,958</u>

COMPENSATORY EDUCATION

Salaries - Professional	487,334
Salaries - Non-Professional	244,534
Insurances	97,646
Fica, Retirement, Etc.	172,773
Purchased Services	13,479
Supplies and Materials	255,302
Capital Outlay	65,730
Other	20,147
Total Compensatory Education	<u>\$1,356,945</u>

VOCATIONAL EDUCATION

Salaries - Professional	304,259
Insurances	85,225
Fica, Retirement, Etc.	73,204
Purchased Services	1,107
Supplies and Materials	4,050
Capital Outlay	34,412
Total Vocational Education	<u>\$502,257</u>

Total Added Needs \$4,324,160

ADULT EDUCATION

Salaries - Professional	62,879
Salaries - Non-Professional	7,286
Fica, Retirement, Etc.	16,565
Supplies and Materials	1,414
Total Adult/Continuing Education	<u>\$88,144</u>

Total Instruction \$17,132,854

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	\$800,936
Salaries - Non-Professional	338,705
Insurances	211,325
Fica, Retirement, Etc.	269,838
Purchased Services	73,480
Supplies and Materials	67,480
Capital Outlay	49,100
Other	1,404
Total Student Services	<u>\$1,812,268</u>

INSTRUCTIONAL STAFF

Salaries - Professional	386,234
Salaries - Non-Professional	243,954
Insurances	100,472
Fica, Retirement, Etc.	143,444
Other Benefits	5,000
Purchased Services	298,083
Supplies and Materials	50,232
Capital Outlay	44,502
Other	24,579
Total Instructional Staff	<u>\$1,296,500</u>

GENERAL ADMINISTRATION

Salaries - Professional	137,940
Salaries - Non-Professional	133,672
Insurances	58,477
Fica, Retirement, Etc.	57,951
Other Benefits	6,000
Purchased Services	232,751
Supplies and Materials	24,744
Other	5,588
Total General Administration	<u>\$657,123</u>

SCHOOL ADMINISTRATION

Salaries - Professional	1,127,728
Salaries - Non-Professional	340,631
Insurances	409,485
Fica, Retirement, Etc.	341,069
Other Benefits	8,500
Purchased Services	10,608
Supplies and Materials	75,994
Capital Outlay	11,370
Other	7,080
Total School Administration	<u>\$2,332,465</u>



MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

BUSINESS OFFICE

Salaries - Professional	\$101,535
Salaries - Non-Professional	98,276
Insurances	65,879
Fica, Retirement, Etc.	43,512
Other Benefits	3,495
Purchased Services	45,393
Capital Outlay	4,422
Other	104,230
Total Business Office	<u>\$466,742</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	53,204
Salaries - Non-Professional	1,003,632
Insurances	426,015
Fica, Retirement, Etc.	361,518
Other Benefits	2,500
Purchased Services	372,583
Supplies and Materials	590,475
Capital Outlay	110,281
Other	341
Total Operation and Maintenance of Plant	<u>\$2,920,549</u>

TRANSPORTATION

Salaries - Professional	36,025
Salaries - Non-Professional	480,389
Insurances	69,146
Fica, Retirement, Etc.	122,874
Other Benefits	2,500
Purchased Services	136,091
Supplies and Materials	228,945
Capital Outlay	62,166
Other	1,668
Total Transportation	<u>\$1,139,804</u>

OTHER SUPPORT SERVICES

Salaries - Professional	90,221
Salaries - Non-Professional	147,531
Insurances	41,654
Fica, Retirement, Etc.	53,200
Other Benefits	5,375
Purchased Services	341,033
Supplies and Materials	17,087
Capital Outlay	30,892
Other	2,500
Total Other Support Services	<u>\$729,493</u>

<u>Total Support Services</u>	<u>\$11,354,944</u>
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MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2006

COMMUNITY SERVICES

Salaries - Professional	\$18,509
Salaries - Non-Professional	22,092
Insurance	1,473
Fica, Retirement, Etc.	9,639
Purchased Services	888
Supplies and Materials	13,581
Other	5,029
Total Community Services	<u>\$71,211</u>

<u>Total Expenditures</u>	<u>\$28,559,009</u>
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OTHER FINANCING USES

Other Construction Projects	286,356
Transfers to School Service Funds	395,314
Total Other Financing Uses	<u>\$681,670</u>

<u>TOTAL EXPENDITURES AND OTHER FINANCING USES</u>	<u>\$29,240,679</u>
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MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
TRUST AND AGENCY FUND  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	Due to (From)	Receipts	Disbursements	Due to (From)
	Student Groups July 1, 2005			Student Groups June 30, 2006
Revolving Fund	\$200	\$3,942	\$3,942	\$200
Alternative Education	2,485	8,154	3,022	7,617
Education Endures Scholarship	570	33	353	250
High School Band	1,062	1,757	2,195	624
High School Choral	1,192	9,149	9,058	1,283
High School Class of 2005	850	0	0	850
High School Class of 2006	1,915	9,867	8,614	3,168
High School Class of 2007	572	12,703	10,093	3,182
High School Class of 2008	0	3,302	1,485	1,817
High School Class of 2009	0	680	672	8
High School Coaches Fund	5,340	5,119	7,208	3,251
High School Dance Team	0	3,827	1,173	2,654
High School DECA	511	7,076	6,262	1,325
High School Drama	876	346	0	1,222
High School Ecology	2,766	0	100	2,666
High School EMI	280	25	0	305
High School Fieldtrips	0	11,573	11,273	300
High School Handbook	152	160	0	312
High School Miscellaneous	41,193	33,988	49,824	25,357
High School Nat. Honor Soc.	225	0	0	225
High School Parking	27	3,355	908	2,474
High School Pool & Lock	215	1,217	625	807
High School Racing	551	0	0	551
High School S.A.D.D.	214	1,875	2,039	50
High School Senior Celebration	3,295	9,983	10,186	3,092
High School Shop	1,246	923	885	1,284
High School Store	0	11,422	9,543	1,879
High School Student Council	6,765	5,439	5,747	6,457
High School Student News	1,418	23,137	23,105	1,450
High School Technology	9,843	4,420	9,210	5,053
High School Tennis	253	0	0	253
High School Wood/Metal	380	1,637	1,771	246
High School Yearbook 2004/2005	1,240	447	1,687	0
High School Yearbook 2005/2006	0	2,930	0	2,930
Skip Program	274	2,837	3,096	15
Sports Baseball	150	995	653	492
Sports Basketball	25	1,267	395	897
Subtotal	\$86,085	\$183,585	\$185,124	\$84,546

## MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

## TRUST AND AGENCY FUND

## SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2006

STUDENT ACTIVITY	Due to (From)	Receipts	Disbursements	Due to (From)
	Student Groups July 1, 2005			Student Groups June 30, 2006
Sports Cheerleading	\$1,884	\$18,598	\$12,015	\$8,467
Sports Football	2,085	5,513	7,278	320
Sports Golf	258	147	122	283
Sports Misc	14,171	11,392	10,664	14,899
Sports Soccer	97	0	0	97
Sports Softball	445	0	0	445
Sports Swim	696	508	82	1,122
Sports Tennis	330	791	472	649
Sports Track	0	510	265	245
Sports Volleyball	914	10,590	9,600	1,904
Junior High Band	476	2,022	2,279	219
Junior High Cedarpoint	0	5,319	5,084	235
Junior High Choir	5,419	2,969	2,219	6,169
Junior High Library	89	2,077	2,057	109
Junior High Misc	20,900	19,563	22,544	17,919
Junior High Nat. Honor	498	100	257	341
Junior High Student Council	480	2,007	2,084	403
Junior High Washington	0	2,147	1,312	835
Junior High Yearbook	55	2,545	1,879	721
Central Band	409	764	530	643
Central Library	8,271	6,161	5,527	8,905
Central Misc	23,309	5,181	22,670	5,820
Central Pencil	785	1,150	1,189	746
Central Special Olympics	0	1,820	1,512	308
Central St. Council	532	0	152	380
Central Teacher Fund	21,071	46,432	37,672	29,831
Montague Elementary	4,140	8,317	8,499	3,958
Moore Elementary	4,340	35,525	36,212	3,653
Pinehurst Elementary	1,230	4,280	4,878	632
Pinehurst Pop Fund	3,026	1,124	420	3,730
Mt. Morris Wrestling	797	0	0	797
M M Little League	95	0	0	95
M M Youth Football	1,845	31	0	1,876
Transportation	244	1,129	1,065	308
<b>TOTALS</b>	<b>\$204,976</b>	<b>\$382,297</b>	<b>\$385,663</b>	<b>\$201,610</b>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$560,813

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2007	\$28,431	4.761353%	\$10,944	\$39,375
2008	131,077	4.761353%	54,768	185,845
2009	31,211	4.761353%	8,172	39,383
2010	32,696	4.761353%	6,686	39,382
2011	34,253	4.761353%	5,129	39,382
2012	35,882	4.761353%	3,498	39,380
2013	37,590	4.761353%	1,790	39,380
<u>TOTAL</u>	<u>\$331,140</u>		<u>\$90,987</u>	<u>\$422,127</u>

DATE OF ISSUE - June 1, 2006

Original amount of issue - \$1,800,000

2006 CAPITAL IMPROVEMENT BONDS

	INTEREST RATE	PRINCIPAL REQUIREMENT	NOVEMBER INTEREST REQUIREMENT	MAY INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
2006-2007	3.75%	\$550,000	\$28,996	\$34,795	\$613,791
2007-2008	3.86%	600,000	24,482	24,483	648,965
2008-2009	3.97%	650,000	12,903	12,902	675,805
<u>TOTAL</u>		<u>\$1,800,000</u>	<u>\$66,381</u>	<u>\$72,180</u>	<u>\$1,938,561</u>



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

August 23, 2006

To the Board of Education of  
Mt. Morris Consolidated Schools

In planning and performing our audit of the financial statements of Mt. Morris Consolidated Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Mt. Morris Consolidated Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

#### FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.
- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.



Mt. Morris Consolidated Schools

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August 23, 2006

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Atherton Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- \* Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- \* Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- \* Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Mt. Morris Consolidated Schools

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August 23, 2006

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Mt. Morris Consolidated Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Lewis & Knopf PC*  
LEWIS & KNOFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS